

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2006 through the Fourth Quarter of 2009

The current Idaho economic forecast is best described as a tweaked version of this July's forecast. That is, although some of the details are different, the general growth pattern is the same. Specifically, this summer it was predicted the Gem State would enjoy strong growth this year, thanks to a surge in the first half, and then expand more slowly. Another feature of the previous forecast was, despite the anticipated slowing, Idaho's economy would advance faster than the national economy. Little has changed since this summer, so the previous forecast summary aptly describes Idaho's current economic outlook.

As was mentioned above, it was anticipated the state's economy would grow briskly in the first half of this year. Proof of this strong showing can be seen in both the nonfarm and personal income data. According to the most current estimates based on Idaho Department of Commerce and Labor information, the state's nonfarm employment surged at a 7.4% annual rate in the first quarter of 2006 and by 2.8% in the following quarter. The growth in a couple of sectors is noteworthy. One is at a loss to find sufficient superlatives to describe the state's housing industry. Construction employment increased an astronomical 34.2% in the first quarter and by 9.1% in the second quarter of this year. The state's huge services sector also produced robust job gains of 5.2% in the first quarter and 3.3% in the second quarter.

Idaho nominal personal income growth echoed the state's employment growth during this year's first half, growing 12.6% in the first quarter and 6.9% in the second quarter. This measure's performance reflected the strong showing of most of its components. Wages and salary payments surged at a 17.4% annual pace in the first quarter and by 8.6% in the second quarter, the result of strong job growth and healthy wage gains. The latter factor probably benefited from bonus payments to employees. Other income categories that soared in the first quarter were nonfarm proprietors' income (8.7%), other labor income (12.0%), and government transfers to individuals (13.9%). In addition, dividends, rent, and interest income rose 9.4% in this year's second quarter.

The cooling national economy will cause both Idaho nonfarm employment and personal income growth to slow from their previous pace. Idaho nonfarm employment growth is expected to slip under 3.0% in this year's remaining two quarters. Despite this slowing, Idaho nonfarm employment is expected to be 4.3% higher in 2006 than it was in 2005, which is its best showing in a dozen years. Idaho nominal personal income growth should downshift to under 7.0% in the second half of 2006. However, on annual basis, it will be 8.3% higher than in 2005.

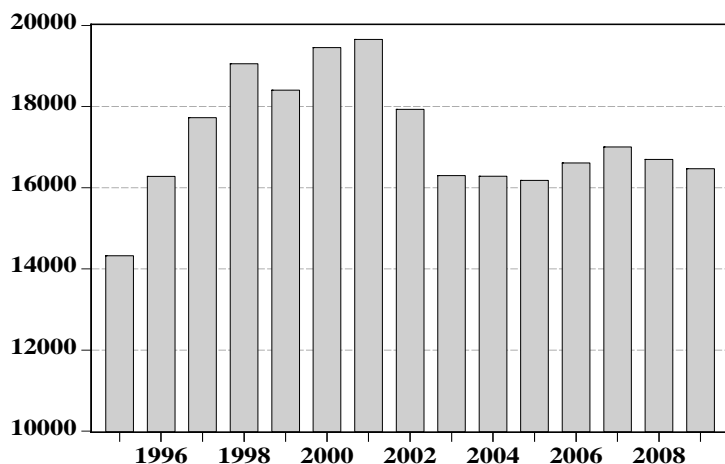
Both Idaho employment and personal income growth will drop beneath their 2006 banner showings. However, both are expected to continue to out pace their respective national counterparts. First, Idaho nonfarm employment should increase an average of 2.5% annually from 2006 to 2009. Over this same period U.S. nonfarm employment is predicted to rise 1.4% per year. Second, nominal Idaho personal income is forecast to advance an average of 6.8% per year, while national personal income averages 5.7% growth. After adjusting for inflation, Idaho personal income increases 4.8% annually. National real personal income rises at an average 3.7% pace from 2006 to 2009.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: After suffering significant employment losses at the beginning of this decade, Idaho's computer and electronics manufacturing should remain relatively stable over the next few years. This sector's payroll peaked at 19,656 jobs in 2001 after several years of spectacular growth. However, this sector's expansion ended abruptly when the nation's high-tech bubble imploded. Jabil Circuit, a relatively new arrival on the Gem State's high-tech scene, halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI,

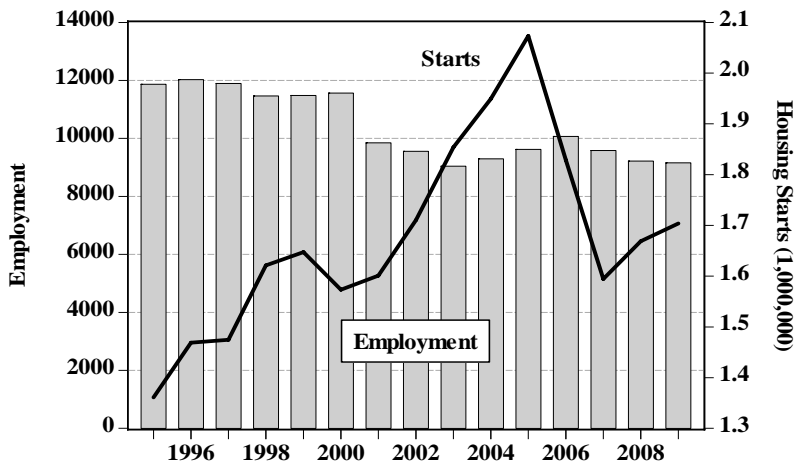
and Hewlett-Packard reduced their staffs. Unfortunately, another round of layoffs in 2002 caused employment to plunge 8.8%. One notable exception to the early rounds of layoffs was Micron Technology. However, the state's largest employer eventually succumbed to the high-tech downturn and reduced its Idaho workforce by about 1,000 in early 2003, and the state's computer electronics sector's employment base shrank another 9.1% in 2003. After the dust settled from these back-to-back declines, there were about 3,400 fewer jobs in this sector compared to 2001. Although this sector has stopped hemorrhaging jobs, its recovery has been tenuous, with employment virtually unchanged in 2004 and 2005. This year marks a turning point, with employment expected to increase 2.6%. Part of this increase is the result of a reclassification that moved jobs to the computer and electronics sector from the wholesale trade sector in the first quarter of 2006. This sector's employment is predicted to continue expanding during the first half of next year, as the output of computer and electronics products expands at a healthy clip. As a result, employment should increase 2.4% to about 17,000 jobs in 2007. This will be the sector's high-water mark over the next few years, as employment is forecast to slide to about 16,500 by 2009. Admittedly, this sector's future job gains pale in comparison to its showing in the 1990s. However, it is a welcome change from the losses that pummeled this sector earlier this decade.

**Idaho Computer and Electronic Products
Employment**



Logging and Wood Products: Idaho's lumber and wood products employment may be enjoying a banner year, but cyclical and structural factors promise to make the future challenging for this cornerstone industry. Current data show this sector's employment climbed above 10,000 jobs in the first half of 2006 for the first time since the beginning of 2001. The logging and wood products recent employment run up was fueled by the nation's red-hot housing sector that soared from 1.6 million housing starts in 2001 to nearly 2.1 million starts in 2005, an amazing 6.7% annual pace. Unfortunately, this strong growth is not sustainable, and, indeed, the U.S. market is already displaying signs of cooling (please see the *Housing* section of the National Forecast Description). Another sign the housing sector has passed its peak is the decline in wood product prices this fall. According to *Random Lengths Yardstick*, the September 2006 composite price for framing lumber was down 26% from a year ago and the structural panel composite price was off nearly 45% over the same period. National housing starts are expected to decline further both this year and next year. This situation does not bode well for the local lumber and wood products producers, many of whom witnessed wrenching job losses earlier in the decade. Unfortunately, the weakening demand for lumber and wood will reinforce several ongoing

Idaho Wood Product Employment and U.S. Housing Starts

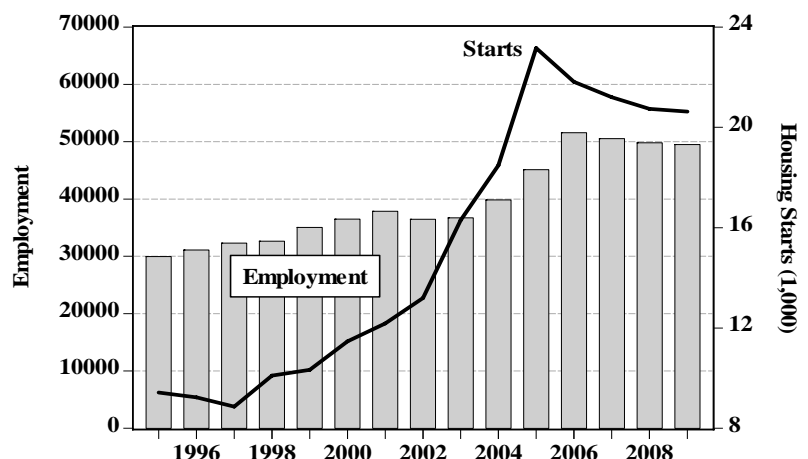


structural changes that hurt employment opportunities. In recent years many Idaho lumber and wood businesses revamped their operations to remain competitive. These moves resulted in huge productivity gains that kept operations afloat during the industry's rough patches. According to U.S. Forest Service data, output per Idaho logging and wood products worker rose from 172,000 board feet of lumber in 1993 to about 215,000 board feet in 2003. Laborsaving innovations are expected to be an important part of this sector if it is to remain competitive. Ironically, this huge productivity gain reduced the

need for workers. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling supply of timber from public forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Idaho logging and wood products employment is forecast to shrink from 10,068 this year to 9,160 in 2009.

Construction: Construction has been a major force keeping the Idaho economy moving forward. This sector's employment expanded a robust 8.4% in 2004 and an incredible 13.3% in 2005. During these same years total Idaho nonfarm employment advanced by 2.7% and 4.0%, respectively. Recent evidence suggests Idaho's construction sector peaked earlier this year. First, Idaho total housing starts have been oscillating between 20,000 units to 25,000 units over the last few quarters. However, it dropped to 21,515 units in the second quarter because of the decline in single-family starts. Wells Fargo's July 2006 *Idaho Construction Report* shows both the number and value of new dwelling permits in July 2006 were down from a year ago. In addition, the same report points out the number of dwelling unit permits issued through July 2006 is down 11.1% from the same period last year. Not all the building categories were down, however. In fact, nonresidential construction and alterations and repairs were up significantly from the previous year. This is consistent with the traditional pattern of the construction industry. Nonresidential construction typically follows residential construction as the businesses follow the population. Repairs and alterations still grow after a hot housing market cools because

Idaho Construction Employment and Housing Starts

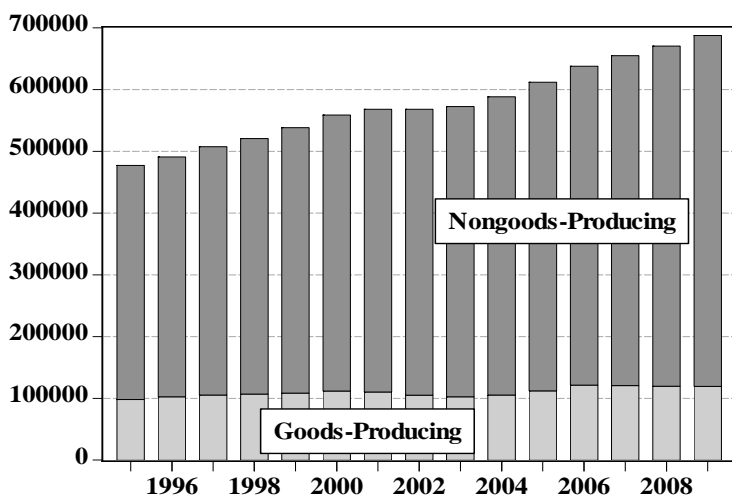


purchasers of existing homes usually take up to three years to remodel after purchasing a home. Both of these factors will help dampen the impact of falling housing starts. Before moving to the forecast of Idaho housing starts and construction employment, it is worthwhile to review history. Idaho's housing starts increased from just over 3,300 units in 1988 to nearly 23,200 units in 2005, which was a 12.2% annual gain over this 17-year period. Idaho construction employment rose about 5.9% annually from 1991 to 2005, or about twice as fast as total nonfarm employment. What this growth rate masks is how quickly housing starts accelerated in recent years. During the eight-year period from 1997 to 2005 housing starts grew from 8,900 to 23,161—a 161% increase, or about 13% per year. Not surprisingly, Idaho construction employment also expanded robustly, from 32,324 jobs to 45,130 jobs over the same period. The strong local sellers' market caused home prices to surge faster than the consumer price index, leading to concerns the state's housing market is due for a correction. A correction is not without precedent. A hot market caused Idaho housing starts to peak at over 12,600 units in 1977, which was a threefold increase from 1970's 4,000 housing units. Three years later there were less than 6,000 housing starts in the state, and housing starts remained below 6,000 units for the next decade. While Idaho housing starts are expected to decline from their recent highs, it is believed this decline will be orderly and less steep than it was three decades ago. There are several reasons for this prediction. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, Idaho could benefit from a boom in second homes. Fourth, stable nonresidential construction and alterations and repairs. Idaho housing starts are expected to slide to 21,818 units in 2006, 21,200 units in 2007, 20,735 units in 2008, and 20,629 units in 2009. Keep in mind that even after falling for four years, the number of Idaho starts will still be higher than they were at the start of the decade.

Nongoods-Producing Industries: The private nongoods-producing sector will be the state's employment growth engine during the forecast period. This sector's anticipated 3.9% average annual job growth will dwarf the overall nonfarm rate of 3.0%. At this pace, it will account for 83% of the total jobs added in the next four years. The nongoods-producer sector can be divided into its services and trade components. Services consists of the following industries: information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. The services component is the larger of the two, accounting for nearly three-

quarters of this sector's employment. This component's employment has averaged 4.3% annual growth from 1991 to 2005, while trade employment has expanded 2.6% per year. The service component's strength is no surprise, given it includes some of the economy's fastest growing industries. One of this sector's star performers is professional and business services. This category grew an impressive 5.1% in 2005 and should expand another 6.6% this year. Part of this year's strong showing reflects a reclassification of employees from the information services category to the professional and business services category in the

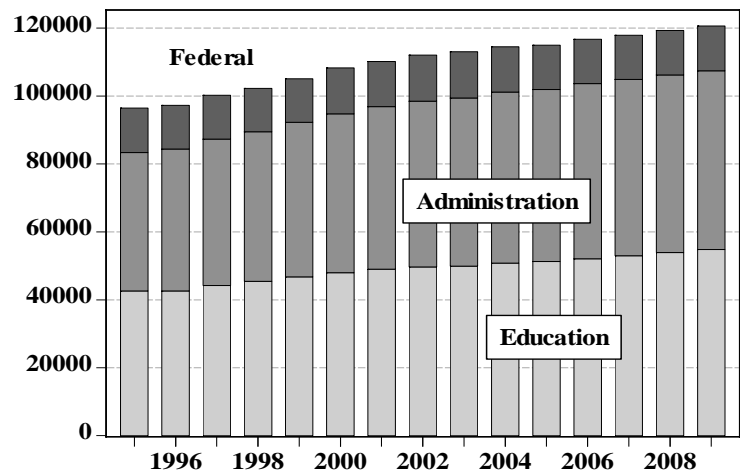
Idaho Nonfarm Employment



first quarter of 2006. Other strong performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics. As a result, education and health services employment is relatively immune to business cycle swings. However, the leisure and hospitality category will add jobs slightly faster over the forecast period. Overall services employment is projected to increase 3.9% annually. The trade sector's employment should also grow faster than total nonfarm employment, but slightly slower than the services sector's. Specifically, it is expected to increase an average of 3.7% per year.

Government: The Gem State's public sector should grow steadily, but slowly, over the forecast period. The public sector is an important source of jobs for the state's economy, accounting for nearly one of every five jobs in Idaho. The state and local government category is by far the largest employer, accounting for about 90% of the total, and federal employment makes up the remainder. Traditionally, state and local employment has grown much faster than federal employment. In fact, lately the former has been expanding while the latter has been contracting. The number of state and local government jobs has grown from 75,900 in 1992 to 101,871 in 2005. Federal government employment, on the other hand, dropped from 13,450 jobs to 13,079. One of the reasons state and local employment growth eclipsed federal employment growth over this period is because it is directly fueled by the state's strong population growth. Driven by a flood of newcomers, Idaho's population expanded nearly 30% from 1990 to 2000. Although population growth cooled in the early years of the current decade, it has recently accelerated. The U.S. Census Bureau estimates the Gem State's population jumped about 2.7% in 2005—the first time it has advanced above 2% this decade. The state's population is forecast to expand another 2.6% this year, but slow gradually over the remaining years of the forecast. As a result, Idaho state and local government employment growth should peak at 1.8% this year and grow about 1.2% in each following year. Most of this growth will be in education-related employment, which is forecast to increase more than twice as fast as noneducation-related employment after 2006. Idaho federal government employment is forecast to remain virtually flat over the next few years thanks to the anticipated austerity measures by the U.S. Congress. There are downside risks to the Idaho federal jobs forecast. Most notably, an estimated 660 jobs will be lost due to the latest round of base realignments and closures, with Mountain Home Air Force Base taking the biggest hit.

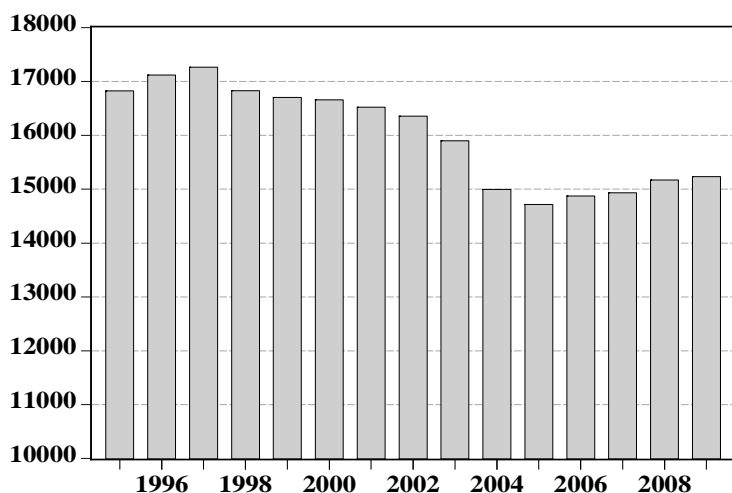
Idaho Government Employment



Mining and Chemicals: While the Gem State's mining and chemical sectors have expanded recently, both sectors are expected to shed jobs over the forecast period. This ebb and flow of jobs is endemic to resource-based industries that are sensitive to the business cycle. For example, Idaho mining industry employment rose from 1,758 jobs in 2002 to 2,160 in 2005 thanks to strong metal prices. Mining employment is forecast to increase another 7.3% to 2,319 jobs this year. Unfortunately, it appears employment will eventually regress to the downward trend that has plagued this sector. A review of the employment data shows cyclical job peaks have been getting progressively smaller over time. For example, Idaho mining employment peaked at 5,200 jobs in 1981. The next peak occurred in 1990, but it was 3,900 jobs. A peak of 3,000 jobs followed in 1997. This trend should continue when employment

hits 2,319 jobs this year then gradually declines to just under 2,000 jobs in 2009. Like the state's mining sector, Idaho's chemical sector has also expanded recently. These gains are a welcome change from previous years' job losses. The biggest job loss occurred when Astaris (formerly FMC) shut down its elemental phosphorous plant located just outside of Pocatello in 2002. As a result, chemical employment declined over 17% that year. This sector suffered another 5% job decline in 2003. It began a gradual recovery in 2004, and by 2005 employment was virtually the same as in 2002. This sector received a boost in 2006 when workers in the retail sector were reclassified as chemical workers. The good news is chemical employment should rise both this year and next year, reaching 2,145 jobs in 2007. However, a new round of job decrease will start after that year and employment will fall to about 1,900 jobs in 2009.

Idaho Food Processing Employment



Food Processing: After years of declining employment, Idaho's largest nondurable manufacturing sector is expected to gain jobs this year for the first time this decade. This forecast confirms the food processing sector is recovering from the severe hits it took recently. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef

processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About 400 jobs were lost when the company permanently closed the plant. Although some plants have closed, new plants are opening. Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years, making it one of Elmore County's largest employers. This sector's vitality is important because it adds value to the state's agricultural commodities. For example, nearly 60% of Idaho's most famous crop, potatoes, is processed. Idaho is also one of the nation's largest producers of both milk and cheese.